

Contra Costa County

Health Care Spending Account

HCSA

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The Contra Costa County Health Care Flexible Spending Account (HCSA) allows you to pay, on a pretax, salary reduction basis, eligible health care expenses not covered by your medical, dental or vision plans. Because you use pretax dollars, your tax liability is reduced-but your actual tax savings depends on your individual circumstances. The program is established under Internal Revenue Code (IRC) Sections 125.

HOW THE HEALTH CARE SPENDING ACCOUNT WORKS

The HCSA allows you to reimburse yourself for eligible medical and related expenses with before – tax dollars as follows:

- When you enroll in this program you decide how much of your pay will go to your HCSA for the calendar plan year. The County deposits that money in your HCSA account instead of paying it to you in taxable cash. Your contribution shows as a before-tax deduction on your paycheck. The County takes deductions in equal installments on the 10th of each month.
- You can use your account balance to reimburse yourself for eligible expenses during the plan year. Eligible expenses include, but are not limited to plan deductibles, office visit co-payments and prescription eyeglasses. You pay the provider directly for these services then submit a Reimbursement Form to the Employee Benefits Services Unit (EBSU) with the required information.
- The County will issue a reimbursement check, provided the request has been properly submitted and the expenses claimed do not exceed the amount you have elected for the year.
- Services must be received between January 1st and December 31st of the enrolled plan year or whichever portion of the plan year for which you are eligible. However, you have until March 31st of the following year to submit your claims. According to IRS regulations, if you do not submit eligible expenses by this deadline, you forfeit any monies remaining in your account for that plan year.

The “use it or lose it” rule is a provision in the IRS regulations that requires that all money contributed to your HCSA must be used to reimburse qualified expenses incurred during that plan year (January 1 through December 31). Money not used to reimburse eligible expenses is forfeited. The unused portion of your HCSA may not be paid to you in cash. For example, you could not transfer funds from your HCSA to your DCAP account so they could be used for childcare. To reduce the risk of forfeiture, it is critical that you carefully estimate your expenses when choosing your annual election amount.

HOW THE HCSA SAVES MONEY

Your savings are strictly on income taxes. Your HCSA contributions are deducted from your taxable pay on pretax basis-before federal, state, and Social Security (FICA) taxes are calculated. For example, if you earn \$3,000 a month and contribute \$200 to your HCSA, you pay taxes on \$2,800 a month.

The tax savings are reflected in your paycheck each month, all year.

The HCSA can help you save on your taxes, but only if you:

- **Carefully estimate your HCSA expenses.** Any funds you do not use must be forfeited.
- **Recalculate and re-enroll in the HCSA annually during Open Enrollment or within a new 60-day period of initial eligibility or because of a change in family or employment status.**
- **Submit claims and other required documentation on time. The final deadline for the HCSA year is March 31 of the following year. (See page 14, “Submitting Reimbursement Request”)**

The savings depend on your particular tax situation. Consult your tax advisor for more information.

HOW THE HCSA AFFECTS SOCIAL SECURITY AND UNEMPLOYMENT INSURANCE BENEFITS

As discussed in the previous section, if your HCSA is above the Social Security wage base (\$113,700 in 2013), there will be little or no effect on your Social Security benefits. However, if your earnings are below the wage base, your future Social Security benefits may be reduced if earnings from your years of participation in the HCSA are used to calculate your Social Security benefits.

The amount of your HCSA contribution also reduces the earnings used to calculate your unemployment insurance benefits.

WHO IS ELIGIBLE?

The HCSA benefit is available to all regular full time County employees, as well as those regular part-time employees who are regularly scheduled to work 20 or more hours per week. **Employees must complete 6 months of continuous permanent employment with the County to be eligible for this program.**

Once eligible, you may enroll:

- Within 60 days of meeting the 6 month eligibility criteria; OR,
- Within 60 days of a qualifying "Change in Family Status" OR,
- During the annual open enrollment held each fall for the following calendar year.

If you enroll during the annual open enrollment period, payroll deductions begin with your January 10th paycheck. You can use your account to reimburse yourself for eligible expenses incurred between January 1st and December 31st of the enrolled calendar year (or, if shorter, the period that the participant was covered under the plan).

If you become eligible at any other time (i.e., you have a child), you have 60 days from the event date to complete and send in an enrollment form. HCSA participation will begin the first of the month after the Employee Benefits Services Unit (EBSU) receives the completed form and payroll deductions will begin on the 10th of the enrollment month.

WHAT DEPENDENTS ARE ELIGIBLE

You can be reimbursed for your own health care expenses, plus the health care expenses of the following:

- A legal spouse, as defined under federal law.
- Your child/children up to age 26
- A domestic partner or domestic partner's children, or a legal spouse who meets the federal law definition of "spouse" if claimed as a tax dependent on your federal tax return.
- **When you have a change in family or employment status.**

You may be eligible to enroll, cancel or change the amount of your HCSA contribution during the plan year if your circumstances change and qualify as an "eligible change in status". An eligible change creates a new event. The effective date of the change is the first day of the month following your enrollment. (See chart on page 13.)

Note that these rules are established by the IRS and may be different than Contra Costa County rules for other plans.

ENROLLMENT EVERY YEAR IS REQUIRED

You enroll in the HCSA for only one year at a time. Enrollment is for the current plan year (January 1 through December 31). To participate in the HCSA for the following year, you must enroll during Open Enrollment (Once you are eligible).

ARE CONTRIBUTION CHANGES ALLOWED DURING THE PLAN YEAR?

IRS rules governing reimbursement accounts strictly limit your ability to change your contribution amount outside of open enrollment. Once you have enrolled you can only make changes:

- **If you have a “Change in Family Status” event such as:**
 - Birth, adoption, or placement of a child
 - Marriage, divorce, legal separation, or annulment;
 - Death of your spouse or child;
 - Your spouse’s or your dependent’s employment status changes (i.e. your spouse starts or stops a job or takes a leave of absence.);
 - You take an unpaid leave of absence; or,
 - Change in your employment status that causes you to gain or lose eligibility to participate in the HCSA.
- **The change must be consistent with the family status change. For example, if you get married you can only increase your amount if not already at maximum. If you get divorced, you can only decrease your amount.**

WHAT EXPENSES ARE ELIGIBLE

Eligible Expenses

The HCSA is used for health care expenses not paid by insurance.

Only qualified expenses are eligible for reimbursement through the HCSA. Qualified expenses must be for out-of-pocket medical care provided to you, your spouse or tax dependent. IRC Section 213(d)(1)(A) and (B) define medical care as amounts paid for:

- The diagnosis, cure mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body.
- Transportation primarily for and essential to medical care as defined above.

Generally, out-of-pocket expenses such as copayments and deductibles under your major medical plan; prescription drugs; dental expenses, including exams and cleanings; vision expenses, including exams, contact lenses and supplies, and laser eye surgery are eligible under a HCSA. A comprehensive list of eligible expenses is available at www.IRS.Gov.

- Expenses reimbursed under your HCSA may not be reimbursed under any other plan or program. Only your out-of-pocket expenses are eligible.
- Expenses must be incurred during the period of coverage. As outlined in Proposed Treasury Regulation Section 1.125-2, Q/A-7(B)(6), "expenses are treated as having been incurred when the participant is provided with the medical care that gives rise to the medical expenses, and not when the participant is formally billed or charged for, or pays for the medical care. Therefore, the date of service must be during the current plan year.
- Expenses reimbursed under the HCSA may not be used to claim any federal income tax deduction or credit.

Keep in mind that if expenses for any of the items listed below are covered under your medical, dental or vision plan, they are not eligible for reimbursement under the HCSA.

Examples of qualifying expenses include, but are not limited to:

- ▶ Acupuncture
- ▶ Alcoholism/Substance Abuse Treatment
- ▶ Birth control pills and devices (through a doctor's prescription only)
- ▶ Braces – Special rules apply, please see page 20

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- ▶ Ambulances
 - ▶ Artificial limbs
 - ▶ Christian Science practitioner fees
 - ▶ Coinsurance and co-payments
 - ▶ Contact lenses and eyeglasses, including exam fee
 - ▶ Crutches
 - ▶ Deductibles
 - ▶ Dental & Orthodontic treatment (special rules apply for Ortho, see pg 20)
 - ▶ Diagnostic testing fees
 - ▶ Fees of licensed osteopaths
 - ▶ Guide dogs
 - ▶ Hearing care and aids
 - ▶ Hospital bills
 - ▶ Immunizations
 - ▶ Insulin
 - ▶ Laboratory fees
 - ▶ Laetrile
 - ▶ Lamaze classes
 - ▶ Lacik eye surgery
 - ▶ Chiropractor fees
 - ▶ Nurses' fees (including nurses' board and Social Security taxes you pay on behalf of that nurse)
 - ▶ Prescription drugs
 - ▶ Prosthesis
 - ▶ Psychiatric care
 - ▶ Psychologist fees
 - ▶ Routine physician exams
 - ▶ Smoking Cessation /Prescription drugs for Smoking Cessation Programs
 - ▶ Special equipment (such as car hand controls for the disabled)
 - ▶ Sterilization
 - ▶ Therapy treatments (such as physical or speech therapy following an accident or stroke)
 - ▶ Transportation and lodging expenses primarily for rendition of medical services
 - ▶ Weight loss programs (see details below)
 - ▶ Wheelchairs
 - ▶ X-rays

Special Rules for Weight Loss Programs

Under IRS rules, only certain expenses can be reimbursed. These include:

- You can include in medical expenses amounts you pay to lose weight if it is a treatment for a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). This includes fees you pay for membership in a weight reduction group as well as fees for attendance at periodic meetings. You cannot include membership dues in a gym, health club, or spa as medical expenses, but you can include separate fees charged there for weight loss activities.

The deductible expenses are limited to counseling sessions, group meetings and the like.

Please note: Only those items mentioned above can be reimbursed through the HCSA at this time, other weight loss program expenses cannot. Ineligible expenses would include:

- Special reduced calorie foods (even if taken in conjunction with an allowable weight loss program)
- Weight loss program costs for those who participate merely to improve general health or appearance
- Exercise equipment
- Nutritional supplements
- Sports clothing or shoes

SPECIAL RULES FOR OVER-THE-COUNTER MEDICATIONS/SUPPLIES

Reminder – The IRS has restricted the reimbursement of Over-the-Counter medications. Over the counter medication such as pain killers, cough syrups and allergy medications are no longer eligible unless they are prescribed by a treating physician. Medical supplies will continue to be covered. Over-the-Counter items intended for general health and well-being – such as one a day vitamins, toothbrushes, toothpaste, cosmetics and medicated shampoo – are not eligible for reimbursement.

PLEASE NOTE: Over-the-Counter drug purchases must be limited to a reasonable supply. When submitting claims for Over-the-Counter items, you will need to supply a cash register receipt that clearly describes the item(s) purchased along with a written note that states the name of the item and its intended use. A receipt that lists only a price is not sufficient.

Examples of Over-the-Counter medications that will generally be considered eligible expenses:

- ✓ Bandages, Band-Aids, wraps and splints
- ✓ Cold/hot packs for injuries
- ✓ Contact lenses
- ✓ Contraceptives
- ✓ Crutches
- ✓ Hearing aids and batteries
- ✓ Insulin, syringes
- ✓ Orthopedic eyeglasses
- ✓ Prescription eyeglasses (includes prescription sunglasses and over-the-counter – reading glasses)
- ✓ Oxygen equipment
- ✓ Pregnancy test kits

Examples of over-the-counter medications that **require a doctor's note** which must include length of treatment, a diagnosis and how the over-the-counter medication will heal or alleviate the condition:

- Acid Controllers
- Allergy & Sinus
- Antibiotic Products
- Antidiarrheal
- Anti-Gas
- Anti-Itch & Insect Bite
- Baby Rash Ointments/Cream

- Cold Sore Remedies
- Cough, Cold & Flu
- Digestive Aids & Stomach Rem
- Feminine Anti-Fungal/Anti-Itch
- Hemorrhoid Preps
- Laxatives
- Motion Sickness
- Orthopedic shoes and inserts (price difference only)
- Pain Relief
- Respiratory Treatments
- Sleep Aids & Sedatives

Ineligible Expenses

As mentioned above, only qualified expenses can be reimbursed through the HCSA. Expenses that do not qualify as medical care cannot be paid through the HCSA, including:

- Over-the-counter medications, unless prescribed by a doctor or another individual who can legally issue a prescription.
- Cosmetic surgery and procedures, including dental whitening.
- Expenses for services rendered outside the coverage period.
- Expenses reimbursed by an insurance provider or another health plan.
- Herbs, vitamins, supplements or over-the-counter medications used for general health.
- Insurance premiums
- Family or marriage counseling
- Personal use items (e.g., toothpaste, shaving cream, cosmetics)
- Prescription drugs imported from another country

Be aware that expenses submitted for reimbursement must meet IRC regulations. Expenses must be substantiated by an independent third party (for example, an insurance carrier EOB (evidence of benefits) or a detailed statement from the service provider). "Self-substantiation," such as a cancelled check or credit card or cash receipt, is not sufficient. If your health care expenses are not clearly eligible, Contra Costa County may ask you to submit additional information to determine whether the reimbursement is allowed.

Special Rules Associated with Orthodontia Expenses

Services associated with orthodontia generally are provided over an extended period of time and often are impossible to match with actual costs. As a result, orthodontic expenses are processed differently than any other type of health care expense. The two reimbursements methods used for orthodontic expenses are as follows:

1. **Lump Sum Approach.** You may be reimbursed up front for all qualified expenses paid in the current plan year. Documentation must include treatment start date, anticipated treatment end date, proof of payment and a completed claim form. If payment for orthodontia is made in full, the full contract amount, not exceeding your annual election, will be reimbursed. To receive reimbursement for the full contract amount:
 - a. Payment must be made within the applicable plan year.
 - b. Proof of payment must be provided with your claim.
2. **Monthly Approach.** You may be reimbursed for the initial payment usually associated with banding fees. Thereafter, you may file a monthly claim for the monthly payment amount. Please note a treatment plan or itemized statement is required with the initial contract/banding claim. The documentation should include the amount of the initial down payment, the treatment start date, and anticipated treatment end date. For ongoing monthly claims, an itemized statement or payment coupon from the provider and a signed claim form are required.

HOW MUCH YOU CAN CONTRIBUTE TO THE HCSA

You may contribute up to \$2,500 per plan year (\$208.33 per month) from your salary. If both you and your spouse are Contra Costa County employees, you may each contribute up to \$2,500.

It's important that you estimate your health care expenses carefully, because **the IRS requires you to forfeit any unclaimed money in your HCSA after the closing date for the plan year.**

In accordance with IRC regulations Contra Costa County uses forfeited funds to pay administrative costs of the HCSA program.

IMPORTANT DEADLINES

You may use funds in your HCSA account for eligible expenses incurred from January 1, **through** December 31 **of the enrolled calendar year.** Any claim forms for reimbursement of account funds must be received by EBSU **by March 31 of the following plan year.**

IMPORTANT: All claim forms and required documentation for services received during the plan year must be postmarked or received by EBSU by March 31 of the following year, or you will forfeit any unclaimed balance in your HCSA. EBSU will accept mail, faxes or scanned e-mails. The fax number is 1-925-335-1798.

PAYMENT PROCESS

Payments will be processed as soon as administratively feasible. Claims are processed twice each month. Generally, reimbursement will be made as follows:

- ▶ Eligible claims received between the 1st and the 15th of the month will be processed by the 10th working day following the 15th
- ▶ Eligible claims received between the 16th and the end of the month will be processed by the 10th working day following the end of the month.

SUBMITTING REIMBURSEMENT REQUESTS

1. E-mail. Scan reimbursement claim form and supporting documentation to benefits@hrd.cccounty.us. You can get a copy of the claim form at the Contra Costa County website.
2. Fax. Submit your completed reimbursement form and supporting documentation using the fax number listed on the form. You can get a copy of the claim form at the Contra Costa County website.
3. Mail. Send in your completed reimbursement form and copies of your supporting documentation using the address noted on your form.
 - ❖ Note: All reimbursement forms must be accompanied by the necessary back up documentation.
 - ❖ All Claims must have an Explanation of Benefits from the insurance provider or an invoice that states the name of the patient, the date of service, the type of service and the amount charged.

You must sign claim forms yourself; claims signed by a spouse or other family member will be returned. With your claim, include a copy of the health plan's EOB or other required information. Be sure to submit copies only; EBSU does not return copies of bills or receipts. EBSU will not accept cancelled checks in lieu of a bill or receipt.

You must certify on the claim form that your expenses are eligible under the program.

If your claim exceeds your existing HCSA account balance, EBSU will reimburse you up to your annual election since the HCSA annual election is available to you in its entirety.

CONTRA COSTA COUNTY'S ACCEPTANCE OF CLAIMS DOES NOT ASSURE IRS ACCEPTANCE

It is your responsibility to make sure that expenses submitted for reimbursement are eligible under the program. You are responsible for taxes and penalties associated with any ineligible expenses if the IRS audits you.

Note that eligible expenses reimbursed from your HCSA cannot be included in itemized deductions on your income tax return.

CHANGING OR CANCELLING CONTRIBUTIONS

Once you have specified an annual salary reduction, that amount is taken from your pay and deposited in your HCSA each month. Federal rules limit adjustments.

However, certain changes in your family or employment status may provide a new 60-day qualifying event during which you may start or stop participating or change the amount of your contribution during the plan year. See the chart on page 6 for the types of changes that may be allowed. IRS rules indicate that changes to participation and/or to contribution amounts during the plan year must be made on account of and consistent with an eligible change in status. **Your new annual contribution amount applies to all expenses incurred during the calendar year, less any reimbursements that were already made before the change. No retroactive changes are allowed.**

IF YOU SEPARATE OR GO ON LEAVE WITHOUT PAY OR RETIRE FROM CONTRA COSTA COUNTY

If you separate from or retire from Contra Costa County, your participation ends at the end of the month in which you leave the employment unless you continue participation under COBRA. For example, if you separate from employment on April 15, your coverage will end April 30.

If you separate or retire from Contra Costa County, you may submit claims for eligible expenses incurred through the last day of participation in the plan. Expenses incurred after this date are not eligible for reimbursement. Unless you continue your enrollment under COBRA. For example, if you retire effective May 15th, your participation ends May 31.

ELECTING COBRA IF YOU STOP WORKING FOR CONTRA COSTA COUNTY

If you leave Contra Costa County employment during the plan year, you will receive a "Qualifying Event Notice" explaining the procedure for continuing your participation under COBRA, the Consolidated Omnibus Budget Reconciliation Act of 1985. With COBRA, you can continue your participation through the end of the current plan year (December 31) by making direct, after-tax payments to your HCSA.

You might consider COBRA if, for instance you have an account balance when you leave Contra Costa County employment and you have planned surgery for later in the year. Remember, you can claim only those expenses you incur while participating in the plan. So, in this example, continuing participation through COBRA would allow you to claim eligible surgery-related expenses.

Commonly Asked Questions About the HCSA

Q. Can I participate in the HCSA and not in the Dependent Care Assistance Plan (DCAP), or vice versa?

A. Yes.

Q. Is there a limit to the amount I can put in the HCSA?

A. Yes. The IRS limits the amount you can contribute to the program at \$2,500 for the plan year.

Q. May I change the amount I elect to defer at any time during the year?

A. The IRS requires that the amount you elect must continue through the rest of the year, unless you experience a change in family status. You can elect a different amount (or to stop participating) during open enrollment for the next plan year.

Q. If I leave or retire from the County before the end of the year, and there is a balance in my account, what happens to it?

A. If you leave employment during the year, you can submit a request for reimbursement for medical services received on or before the last day of the month of your separation. You will have until March 31st following the end of the plan year to submit these expenses.

Commonly Asked Questions About the HCSA

If you wish to receive reimbursements for expenses incurred after you have terminated services, you must continue participating in the HCSA on an after-tax basis through **COBRA**. For example, suppose you elected to continue \$600 for the plan (\$50 per month) to the HCSA. On June 30, you terminate or retire from the County. If you wish to submit medical expenses incurred on or after July 1, you must elect **COBRA** and make a post-tax contribution each month to maintain your participation in the plan. More information can be obtained from the Employee Benefits Services Unit (EBSU).

Q. Will the moneys in the HCSA earn interest?

A. Under current tax law, HCSA programs are not intended to act as a savings vehicle; therefore, no interest is credited.

Q. Will health care reimbursements be made to me or my providers?

A. They will be payable to you.

Q. If I submit expenses through the HCSA, will I be able to claim those same expenses under the "medical expenses" deduction on my form 1040, Schedule A?

A. No. You can either submit the expenses to the HCSA or claim your expenses as a tax deduction on your income tax form. You cannot do both.

Q. What will happen to the balance remaining in HCSA accounts after the end of the plan year?

A. Under current tax law, unused amounts cannot be returned to you. Thus, if you do not claim eligible expenses by the March 31 deadline, any remaining balance is forfeited.

Q. Is the HCSA a “medical IRA” or “Medical Savings Account”?

A. No. Contra Costa County does not offer such plans to its employees.

Q. How will I know what my balance is in my HCSA?

A. Your paycheck will show current and year-to-date deductions for the HCSA. Each time you submit a request for reimbursement you will receive a copy of your claim form that will reflect your reimbursement amount and the current balance in your account.

Q. How often may I submit requests for reimbursements?

A. You may submit requests for reimbursement at any time your accumulated expenses are at least \$20.00. Requests for smaller amounts will not be processed until the end of each calendar year.

IF YOU HAVE PROBLEMS OR QUESTIONS

If you have questions about the program you can contact the EBSU at 1-925-335-1746 or e-mail EBSU at benefits@hrd.cccounty.us.

MIDYEAR ELECTION ACTIONS ALLOWED UNDER HEALTH CARE SPENDING ACCOUNT (HCSA)

In this chart:

- “Spouse” means your legal spouse (as defined under federal law).
- “Dependent” means anyone you claim as a federal tax dependent, such as a child, domestic partner, parent, sibling, in-law or spouse who meets the federal law definition.
- “Health plan” includes a medical, dental or vision plan; “HCSA” means a health care spending account.

ACTION ALLOWED				
Event	Enroll?	Increase Contribution	Dis enroll?	Decrease Contribution
CHANGE IN YOUR MARITAL STATUS				
You marry	yes	yes	no	no
You marry and either	no	no	yes	yes
<ul style="list-style-type: none"> You and/or your dependent become eligible under or enroll in your new spouse's own employer's health plan, or Your spouse is enrolled in his or her own employer's HCSA 				
You lose your legal spouse by death, divorce, legal separation or annulment.	no	no	no	yes
You lose your legal spouse	yes	yes	yes	yes
Through death, divorce, legal separation or annulment and you and/or your dependent lose coverage under your spouse's employer's health plan or HCSA				
GAIN OR LOSS OF A DEPENDENT				
You gain an eligible dependent	yes	yes	no	no
(for example, through birth, adoption, or your eligible child moves in with you)				
You lose an eligible dependent	no	no	yes	yes
Or a dependent loses eligibility (for example, through death, or when an individual is no longer financially supported by you, or your child no longer satisfies the age requirements for health plan coverage)				
CHANGE IN EMPLOYMENT STATUS THAT AFFECTS BENEFITS ELIGIBILITY				
You, your spouse or dependent	no	no	yes	yes
Gains eligibility for and enrolls in own employer's HCSA, or enrolls self and you in own employer's health plan, because you/he/she <ul style="list-style-type: none"> Starts employment, or Has an employment status change 				
Your spouse or dependent loses	yes	yes	no	no
Eligibility for own employer's HCSA or health plan because you/he/she <ul style="list-style-type: none"> Ends employment, or Has an employment status change 				